



## **Douglas County Internal Audit**

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May 24, 2012

Douglas County Board of Commissioners  
1819 Farnam Street, Suite LC2  
Omaha, NE 68183

Attention: Marc Kraft, Mary Ann Borgeson, Clare Duda, Mike Boyle, PJ Morgan,  
Chris Rodgers and Pam Tusa

Tom Cavanaugh, Douglas County Clerk/Comptroller  
1819 Harney St., Room H08  
Omaha, NE 68183

Dear Commissioners and Mr. Cavanaugh:

I have completed an audit of Douglas County disbursements processing. The purpose of the audit was to assess the adequacy and effectiveness of the control processes used to authorize and record cash payments to vendors. The audit revealed that controls were adequately designed and worked effectively for the recording and payment of invoices. However, deficiencies were noted for the processes used in obtaining and recording purchase orders. Details related to the exceptions appear in the body of the report below.

### **Background**

As part of the fiscal year audit plan, Douglas County Internal Audit performs internal control testing for the Douglas County external audit firm, Hayes and Associates, LLC. The external auditor uses the test data provided by Internal Audit to formulate a professional opinion about the County's year-end financial statements. Below are the details related to tests of the controls for processing the County's cash disbursements.

### **Objectives**

The objectives of the audit were to determine that

- Requisitions, purchase orders, and invoices are properly approved and supported and recorded completely and accurately.
- Payments are made to the appropriate vendors for all and only the goods and services received.
- Disbursements are properly calculated and recorded in the proper periods and accounts.

## **Scope and Methodology**

The audit included a review of twenty-five randomly chosen invoices paid from July 1, 2011 through April 24, 2012. The sample was chosen from the Oracle Payments Register and included tests to verify that:

- Purchase orders are placed only for properly approved requisitions.
- Purchase orders are entered accurately.
- Purchases are recorded to the appropriate accounts.
- Disbursements are made only for goods and services received.
- Disbursements are made to the appropriate vendor.
- Disbursements are recorded completely and accurately.
- Disbursements are recorded in the correct period.
- Travel expenses policies are followed.
- The County takes advantage of all discounts and sales tax exemptions.

## **Findings**

Criteria: The following criteria relate to the issues outlined in the Condition section below:

- Duties should be adequately segregated so that one person does not control enough aspects of a transaction to conceal unauthorized activity.
- Information within the computer system where transaction information resides should be accurate and readily obtainable.
- Processes should be designed to add value to the organization and be as efficient as possible.
- Internal policy requires coordination with Dot.Comm for technology purchases.

Condition: Eleven of the twenty five invoices sampled required a purchase order per Accounts Payable procedures. The others were paid using Direct Pay forms according to procedures. Issues related to the invoices that required purchase orders follow:

- Purchase orders and requisitions were issued after the invoice dates for seven of the eleven invoices that required purchase orders for payment.
  - New purchase orders were generated for six of the seven purchases even though the items were actually ordered using preexisting contracts or purchase orders already in place. The requisitions did not reference the previously approved purchase orders.
    - One of the six invoices was for a Sprint card data plan. County Purchasing guidelines require technology purchases to be coordinated with Dot.Comm. The Sprint data card plan was purchased through an existing State of Nebraska arrangement with a regional organization. There was no evidence that either Dot.Comm or the Purchasing Department participated in the original Sprint data plan purchase.

- The remaining item was for Thomas & Thomas Court Reporter services obtained for three County Board of Mental Health hearings. Purchasing was not involved in the ordering of these services except for the purchase order that was issued after receipt of the invoice.
- For five of the eleven invoices the person who submitted the requisition also approved the requisition and supplied the receipt information.

Effect: The conditions outlined above had the following effects:

- Purchase orders were created which were not used for the actual vendor orders. Creating and approving purchase orders that were not used to actually order/purchase goods or services provided limited value and distorted data within the Oracle system.
- The true information regarding the actual purchase orders or contracts used was not always readily available in the Oracle system.
- Not adequately segregating the creation and approval of requisitions and receipt of goods and services combined with purchased orders issued after the fact in effect created an opportunity to control the entire purchase transaction and possibly conceal unauthorized activity.

Cause: The Purchasing Department designed its procedures so that new purchase orders would be created for every non-direct pay invoice received and paid. Current procedures do not require the separation of requisition creation/approval from receiving the goods or services.

Recommendation: The following recommendations will provide better control of purchases and provide more accurate system information:

- The Purchasing Department and Douglas County Clerk/Comptroller personnel should meet to develop or change policies and procedures to help to ensure that purchase orders are no longer created after the invoices are received. Departments requesting payment should reference the actual contracts or purchase orders used to order the goods or services when creating requisitions.
- Consider expanding the types of invoices that can be paid using Direct Pay forms.
- Require the person approving the requisition or documenting the receipt of the goods and services be different than the person creating the requisition.

Management Response: Purchasing staff will work with Douglas County Clerk/Comptroller staff to implement changes to policies to address the use of purchase orders after receipt of invoice. To that end, Purchasing staff will work with the Douglas County Clerk/Comptroller to expand the types of invoices which can be paid via Direct Pay forms.

## **Audit Standards**

Internal Audit conducted this audit in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

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Internal Audit has reviewed this information with the Chief Deputy Douglas County Clerk and the County's Purchasing Agent. Internal Audit appreciates the excellent cooperation provided by management and staff. If you have any questions or wish to discuss the information presented in this report, please contact Mike Dwornicki at (402) 444-4327.

cc: Paul Tomoser  
Joni Davis  
Trent Demulling  
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